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TAGS: EAID ECON EFIN EINV BL
SUBJECT: IDB AND IMF DISCUSS ENGAGEMENT STRATEGIES WITH
BOLIVIA

Summary

¶1. (SBU) The Inter-American Development Bank (IDB) is realigning its USD 400 million of loans in the pipeline for Bolivia with the country's national development plan. The IDB is preparing an interim strategy for Bolivia and hopes to implement a more permanent strategy after the constituent assembly. The International Monetary Fund (IMF) will likely send a mission to Bolivia during the first half of 2007 to help the government prepare macroeconomic projections prior to a donor meeting the GOB would like to convene in Brussels in May 2007. The IMF predicts that the government will face a USD 2.3 billion financing gap by 2011 and is skeptical that donors will commit the needed amount. The IDB has agreed to provide debt relief for Bolivia. The amount of relief will be discussed at the IDB meeting in January. Bolivia's fiscal situation is positive, but inflationary pressures and pension reform costs could cause problems in the future. The government is considering establishing a budget stabilization fund for hydrocarbons revenues to prevent deficits when gas prices fall that would likely shift resources away from the regions to the central government. End summary.

IDB Lending Plans and IMF Engagement

¶2. (SBU) Inter-American Development Bank Senior Economist Guillermo Zoccali told Econoff on December 1 that the IDB was seeking to realign its USD 400 million of loans in the pipeline for Bolivia with the country's national development plan. He said that the bank would likely reprogram USD 60 million of the USD 400 million and give an additional USD 80 million in concessional loans in 2007. He said that donors were worried that Bolivia was not being monitored by the International Monetary Fund (IMF) and suggested that Bolivia

should engage with the Fund through its "policy support instrument," which would not impose conditions, but would entail monitoring to provide a positive signal. He said that the IDB was preparing an interim strategy for Bolivia and hoped to delineate a more permanent strategy focused on employment, poverty reduction, and government capacity building after the conclusion of the constituent assembly.

¶3. (SBU) IMF Assistant Director Antonio Furtado told Emboffs on December 8 that the fund would likely send some sort of mission to Bolivia in the first semester of 2007 to help the government prepare macroeconomic projections, in preparation for the consultative group meeting of donors that the GOB hoped the European Community would host in May 2007 in Brussels. The Fund proposed to send an Article Four mission in March for this purpose; the government is considering the proposal. The Fund already prepared an estimated financing gap based on the GOB's five-year national development plan. Based on the high levels of public investment envisioned in the plan, the Fund estimated that by 2011, the government would have a USD 2.3 billion financing gap. Furtado noted, however, that the GOB has been investing roughly 9 percent of GDP annually, but that the plan calls for public investment of 14 percent of GDP. Furtado was skeptical that the government was capable of such a significant spending increase. Furtado also doubted that donors would commit the large amounts needed to cover the financing gap, as that GOB had not yet proposed specific projects based on its theoretical national development plan.

IDB Debt Relief to Go Forward

¶4. (SBU) Zoccali said that the IDB had agreed to go forward with debt relief for Bolivia, but had not agreed upon the amount. Because the special operations fund would not be replenished, the debt cut-off dates for Bolivia would likely be pushed back to the end of 2001 or 2003, earlier than originally anticipated. Zoccali said that the bank would meet in January 2007 to discuss debt relief details.

Positive Macroeconomic Situation

¶5. (SBU) Zoccali said that Bolivia's fiscal situation is positive, due to windfall hydrocarbons revenues. Government sources indicate that the government as a whole will have a 5.9 percent of GDP surplus at the end of the year, with the national treasury having a 0.3 percent surplus and the rest attributed to regional governments. According to Zoccali, the government predicts a 3 percent deficit in 2007. Zoccali, like Furtado, was skeptical that the government would be able to effectively execute the high spending levels that it has projected for next year. Furtado predicted that higher government spending would increase inflationary pressures in the coming years. He added that the GOB's ministry of the presidency, which has taken control from the finance ministry, was considering reverting to a government pension system, which could increase GOB expenditures significantly in the future.

Budget Stabilization Fund

¶6. (SBU) Zoccali said that the government was considering establishing a stabilization fund for hydrocarbons revenues. In periods of high natural gas prices, the government would deposit a portion of revenues into the fund to stabilize future budgets. Zoccali said the IDB would encourage the government to set aside some savings for future generations, because gas is a non-renewable resource. Zoccali explained that one of the central government's main reasons for setting up the fund would be to shift more resources toward the central government and away from regional governments in

order to correct funding imbalances that threaten to leave the national treasury with a financing gap next year. The managers of the stabilization fund would have access to hydrocarbons revenues before they were shared with regional governments, as required by law, and would be able to purchase national treasury bonds to finance central government operations. A law would be required to establish the fund, but GOB officials are wagering that a stabilization fund law would be easier to pass than a law changing revenue distribution that would take funds away from regional governments.

Comment

¶7. (SBU) Although the current macroeconomic situation is positive, long-term growth will depend on the country's ability to generate productive jobs, diversify revenue and decrease dependence on hydrocarbons and minerals, manage inflation, and control pension costs. A budget stabilization fund for hydrocarbons revenues seems to be a good idea, but could inflame regional governments if they deduce that their revenue shares are being cut. End comment.
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